Thrasher, Sandra Jo

From: Daniel Massey [massey@us.petroleumargus.com]
Sent: Thursday, September 18, 2003 8:10 AM
To: MRM Comments
Subject: Attn: RIN 1010-AD04

Argus Comments to MMS re Propo...   ATT104333.txt (167 B)

Please find attached the text file "Argus Comments to MMS re Proposed
Valuation Rule.txt". Please contact me to confirm receipt of this document.

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18 September 2003

Minerals Management Service
Minerals Revenue Management
Records and Information Management Team
P.O. Box 25165, MS 320B2
Denver, Colorado 80225-0165

TO: The Staff of the Minerals Management Service

RE: Comments from Argus Media on Proposed Rule on Federal Oil Valuation (RIN 1010-AD04, Fed Reg 68, 161, 50087)

Argus Media, which publishes crude oil price assessments under the brand Petroleum Argus, is a publisher that has been approved by the MMS for royalty payers to use to value oil produced from Federal leases not sold at arm's length (30 CFR Part 206 and 210). Argus has 33 years experience in assessing oil markets, is used in contracts in many different energy commodities worldwide, and has a strict code of ethics and an open and transparent methodology of reporting oil prices. In light of our role reporting prices to the energy industry, we feel it appropriate to make certain brief comments on the proposed rule.

1. The use of Nymex prices in valuing crude oil

As an observer and reporter of markets and prices, Argus does not support one benchmark crude over another, but instead is intent on reporting markets in a manner that is useful to the industry, reflective of common industry practice, and ethically sound. That said, it is our observation that published assessments for Cash WTI are no longer a required component of a deal that is transacted on a WTI-related basis. For WTI-related crudes, the spot market negotiates differentials to WTI and closes deals on those differential values.

The "WTI" that is used to hedge that transaction may include Nymex Light Sweet crude futures, the WTI Cash market, a Postings Plus market, or some other mechanism. As a result, the final value of that crude may be best related to Nymex Light Sweet settlement prices, a published price for WTI Cash, or a posted price. Although it is perhaps impossible to determine which benchmark is preferred, it is clear that the industry has in recent years tied increasing amounts of business to the Nymex settlement price. So the MMS proposal to use Nymex settlement as a basis for valuing royalty oil does not conflict with our observation of common industry practice.

This industry practice is the reason why Argus publishes the prices of its deals done for WTI-related crudes as differentials to WTI, not as fixed prices. Our daily assessments are published both as fixed prices and as differentials to WTI.

2. Restrictions on changing MMS-approved publications

In the proposed rule, section 30 CFR Part 201.112, section (3)(ii)(B), the MMS stipulates that: "After you select an MMS-approved publication to calculate the WTI differential under paragraph (a)(3)(i) of this section, you may not select a different publication more often than once every 2 years, unless the publication you use is no longer published or MMS revokes its approval of the publication. If you are required to change publications, you must begin a new 2-year period."

First, Argus feels that to restrict the ability of companies to change from one approved publication to another is fundamentally anti-competitive. The rule hinders the ability of one approved publication to displace another through the natural competitive benefits of improved quality, service, or breadth. As it stands, the rule favors the incumbent publication. This should be a concern of both government and the royalty payer.

Second, we would point out that price reporting is not static. Price reporting firms change methodologies for individual assessments and for groups of assessments from time to time. This happens for a variety of reasons. Markets change and as a result the methods of reporting them must change. In addition, price reporting firms may alter methodologies in order to differentiate their publication from a competing publication. And firms may alter methodologies with an aim to make the assessment more robust or less able to be manipulated.

If the methodology for arriving at the differentials for WTI-related crudes in a certain approved publication changes after the choice of that publication has been formally made, it could affect the assumed value of the crude for the duration of the two-year period. This would affect both the company and the government's expected royalty position vis-a-vis that lease.

The adaptation of a methodology would not trigger the official (if unspecified) process of revoking a publication's approved status, and so some other means of resolving the issue would have to be employed. In today's marketplace, this is not an unlikely occurrence, as methodologies for assessing the value of crude are changing at a rapid pace both in the US and around the world.

Argus understands that the intention of this section of the rule is to reduce the chance of companies switching indices in order to profit from differences in the publications' price series. But due to its anti-competitive effect, and the effect of methodology changes, Argus requests that a shorter time period of three months be considered. This time period would have the same effect of reducing the ability of companies to switch indices to their gain, and yet it would not unduly restrict companies and government from adjusting to a different publication should legitimate circumstances warrant.

3. Canadian crudes

Should the industry determine that Canadian spot markets for crude are viable as a benchmark for the Rocky Mountain region, Argus would like to point out that we have been assessing spot market prices for Alberta Par, Bow River and Lloyd Blend since September 1999. Currently we also assess Light Sour Blend and Mixed Sweet grades. As these crudes are negotiated at differentials to WTI, we publish those differentials. Argus analyzes daily the difference in value between this spot market and the prevailing average of Canadian refiners' postings.

I thank you for the opportunity to comment.

Sincerely,

Daniel C. Massey
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